

## Message Text

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C O N F I D E N T I A L STATE 195024

MONDAY, OCTOBER 1, 1973

FOR THE HONORABLE ARTHUR F. BURNS, CHAIRMAN  
FEDERAL RESERVE BOARD, HOTEL PRESIDENT

EXCHANGE MARKETS CONTINUED TO BE QUIET TODAY AND EXCHANGE  
RATE FLUCTUATIONS MODERATE.

THE GUILDER AND SWISS FRANC SHOWED THE LARGEST MOVEMENT  
AGAINST THE DOLLAR TODAY, FIRING BY 2/3 PERCENT. THE  
NETHERLANDS BANK PURCHASED AN ADDITIONAL \$25 MILLION TODAY  
FROM DUTCH COMMERCIAL BANKS ON A SWAP BASIS IN AN EFFORT  
TO REDUCE THE CONTINUING TIGHTNESS IN THE DUTCH MONEY MARKET.  
THE SWISS FRANC FIRMED AFTER THE ANNOUNCEMENT OF THE REMOVAL  
OF THE NEGATIVE INTEREST RATE ON NON-RESIDENT SWISS FRANC  
DEPOSITS AND THE SUSPENSION OF THE REQUIREMENT THAT SWISS  
BANKS MAINTAIN A BALANCED FOREIGN EXCHANGE POSITION DAILY.  
THE MARK FIRMED ONLY SLIGHTLY DESPITE THE JUMP OF THE GERMAN  
CALL MONEY RATE TO 13 PERCENT TODAY FROM THE ZERO LEVEL OF  
FRIDAY.

THE BANK OF JAPAN SOLD \$10 MILLION AND THE BANK OF CANADA SOLD  
\$5 MILLION IN TODAY'S ONLY REPORTED FOREIGN CENTRAL BANK  
INTERVENTION. EURO-DOLLAR RATES EASED SLIGHTLY TODAY. THE GOLD  
PRICED \$3.25 FROM FRIDAY TO FIX AT \$96.75 IN LONDON  
THIS AFTERNOON.

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THE BALANCE OF PAYMENTS ON THE OFFICIAL RESERVE TRANSACTIONS

BASIS WAS A DEFICIT OF \$265 MILLION IN THE WEEK ENDED SEPTEMBER 26. ACCORDING TO THE WIRE REPORT, THERE WAS A SURPLUS OF \$540 MILLION ON THIS BASIS FOR AUGUST. FOR THE THIRD QUARTER STAFF ESTIMATES A SURPLUS OF AROUND \$1 BILLION, NOT SEASONALLY ADJUSTED.

THE NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT AGAIN REPORTED A STRONG BUSINESS SITUATION IN SEPTEMBER. IN A SPECIAL QUESTION 48 PER CENT OF THE MEMBERS REPORTED THE THIRD QUARTER WAS BETTER THAN THE SECOND, ONLY 12 PERCENT SAID IT WAS WORSE, AND 31 PERCENT INDICATED IT HAD EXCEEDED THEIR EXPECTATIONS. WITH REGARD TO THEIR VIEWS ON THE ECONOMY OVER THE NEXT 12 MONTHS, 69 PERCENT WERE OPTIMISTIC OR SATISFIED AND 31 PERCENT WERE WORRIED OR CONCERNED. THE OPTIMISTIC GROUP HAD AMOUNTED TO 75 PERCENT SIX MONTHS AGO, AND 85 PERCENT A YEAR AGO.

THE FEDERAL RESERVE COMMODITY PRICE INDEX DECLINED 1.7 PER CENT FROM SEPTEMBER 18 TO SEPTEMBER 25 AS PRICES OF FOODSTUFFS DROPPED MARKEDLY. INDUSTRIAL MATERIALS PRICES WERE DOWN SLIGHTLY. SHARP DECLINES SINCE MID-AUGUST HAVE BROUGHT THE INDEX FOR FOODSTUFF ITEMS DOWN TO A LEVEL 7.5 PERCENT ABOVE THAT ON JULY 18. INDUSTRIAL MATERIALS PRICES WERE 4.6 PERCENT ABOVE THOSE OF JULY 18.

THE SEASONALLY ADJUSTED VALUE OF NEW CONSTRUCTION PUT IN PLACE, AT AN ANNUAL RATE OF \$136.7 BILLION IN SEPTEMBER, WAS SLIGHTLY LOWER THAN THE DOWNWARD REVISED AUGUST LEVEL ACCORDING TO CONFIDENTIAL CENSUS ESTIMATES. THE THIRD QUARTER RATE AVERAGED 1 PERCENT ABOVE THE SECOND QUARTER, BUT WAS STILL BELOW THE FIRST-QUARTER HIGH. NEW CONSTRUCTION OUTLAYS IN CONSTANT DOLLARS WERE DOWN BY 1 PERCENT IN SEPTEMBER.

FOR THE SECOND CONSECUTIVE WEEK THE AVERAGE CONTRACT INTEREST RATE ON 80 PERCENT CONVENTIONAL HOME MORTGAGES ROSE ONLY 2 BASIS POINT FROM THE PREVIOUS WEEK TO A LEVEL OF 8.85 PER CENT. THE TREASURY BOND AND BILL MARKETS DEVELOPED A SLIGHTLY WEAKER TONE TODAY, APPARENTLY REFLECTING AN ADJUSTMENT TO THE SHARP RECENT PRICE ADVANCES. THE 3-MONTH BILL RATE ROSE 8 BASIS POINTS TO 7.06 PER CENT. STOCK PRICES OPENED LOWER BUT SUBSEQUENTLY

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RALLIED AND CLOSED SOMEWHAT HIGHER IN MODERATE TRADING. THE DOW JONES INDUSTRIALS WERE UP 1.73 POINTS TO A LEVEL OF ABOUT 949. FEDERAL FUNDS TRADED MOSTLY AT 10-7/8 PERCENT. THE DESK SUPPLIED \$1.5 BILLION OF RESERVES TODAY.

MR. COYNE REPORTS THAT INA HAS REDUCED ITS FOURTH-QUARTER DIVIDEND PAYOUT, THUS CONFORMING TO CID GUIDELINES. KISSINGER

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